GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:1128
ANSWERED ON:29.04.2016
Revival of State Financial Corporation
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Will the Minister of FINANCE be pleased to state:

a) whether the Union Government has any plan and programme to revive and revitalise the State Financial Corporations (SFCs) many of which are sick today incapacitating them to carry out their mandated role and if so, the details thereof and the manner in which the State Governments are likely to be associated in the revival/restructuring of SFCs;
b) whether the State Industrial Development Bank of India (SIDBI) has decided to gradually phase out refinance support to SFCs, if so, the details thereof and the reasons therefor;
c) the details of policy adopted by the Government on the Micro, Small and Medium Enterprises (MSMEs) and the manner in which the same is being implemented; and
d) the measures taken/ proposed to be taken to maintain a balance between SFCs and MSMEs?

Answer

(MINISTER OF STATE IN THE MINISTRY OF FINANCE)

(a) Based on the Gupta Committee recommendations, Government of India had advised the State Governments to consider recapitalization of SFCs after establishing their long term viability and relevance. Only 10 State Governments viz; Delhi, Haryana, Kerala, Karnataka, Madhya Pradesh, Andhra Pradesh, Orissa, Rajasthan, Tamil Nadu and West Bengal recapitalized their SFCs to some extent by cash infusion and/or by way of pass through mechanism.
Small Industries Development Bank of India (SIDBI) entered into Memorandum of Understanding (MoUs) with 11 SFCs for the revival of these SFCs. As per the MoU, State Governments made commitments to also meet specified obligations. As on date, the MoUs have lapsed and no further renewal is proposed.
7 SFCs did not sign the MoU as the MoU conditions were not acceptable to the respective State Governments / Corporations. Out of 18 SFCs, only 8 SFCs are in operation now.
(b) SIDBI has decided to gradually phase out its SFC portfolio. This was done to ring fence SIDBI from the existing/likely loss on SFCs portfolio due to reduced income and requirement of higher provisioning upon slippages of more SFCs to Non Performing Asset (NPA) which adversely impact the profitability and credit rating of SIDBI.
(c) Policy action for the development and promotion of Micro, Small and Medium Enterprises (MSME) inter-alia includes implementation of MSME Development Act, 2006, National Manufacturing Competitiveness Programme, implementation of recommendations of Prime Minister's Task Force on MSME, Public Procurement Policy for Goods Produced and Services rendered by Micro and Small Enterprises (MSEs), E-Governance initiatives, assisting States in their efforts to encourage entrepreneurship, employment and livelihood opportunities and enhance the competitiveness of MSMEs in the changed economic scenario etc.
(d) Credit gaps in MSME eco-system are being progressively bridged by financial intermediaries such as Scheduled Commercial Banks, Financial Institutions, Non- Banking Financial Companies (NBFCs), Micro Finance Institutions (MFIs) etc. Policy support is additionally provided through Priority Sector Guidelines of the Reserve Bank of India (RBI) which cover lending to MSMEs.

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